



兆邦基國際融資有限公司
Zhaobangji International Capital Limited
香港干諾道中168-200號信德中心招商局大廈19樓01及17室
Unit 1 & 17, 19/F, China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central, Hong Kong
Tel: (852) 3793 8999 Fax: (852) 3793 8900

1 June 2017

To the Independent Board Committee

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY
EMPEROR CAPITAL LIMITED
ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES (OTHER THAN THOSE ALREADY OWNED
OR
AGREED TO BE ACQUIRED BY THE OFFEROR AND THE PARTIES
ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Share Offer, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in this composite offer and response document of the Company dated 1 June 2017 issued to the Independent Shareholders (the "**Composite Document**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in this Composite Document, unless otherwise specified.

Reference is made to the Joint Announcement of the Company and the Offeror dated 11 May 2017 in relation to (a) the SPA entered into amongst the Offeror and National Honour pursuant to which the Offeror has agreed to purchase, and National Honour has agreed to sell the Acquired Shares, being an aggregate of 1,080,000,000 Shares for a total consideration of HK\$270,000,000; and (b) the unconditional mandatory cash offer by Emperor Capital on behalf of the Offeror to acquire all the issued shares (other than those already owned or agreed to be acquired by the Offeror and the parties acting in concert with it) and resumption of trading.

Completion of the SPA took place on 5 May 2017. Immediately after the Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it (the "**Concerted Parties**") were interested in a total of 1,080,000,000 Shares, representing 75% of

the entire issued share capital of the Company. Other than the consideration under the SPA, no other consideration, compensation or benefits in whatever form have been provided by the Offeror or its Concerted Parties to National Honour and its concert parties.

Pursuant to Rule 26.1 of the Takeovers Code, as a result of Completion, the Offeror acquired 50% or more of the voting rights of the Company and has therefore incurred an obligation to make an unconditional mandatory offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and its Concerted Parties). As at the Latest Practicable Date, there are 1,440,000,000 Shares in issue. Save for the 1,440,000,000 issued Shares, the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

The Share Offer will be made by Emperor Capital for and on behalf of the Offeror.

The Independent Board Committee which comprises the non-executive Director, Mr. Cheung Kin Keung Martin and all the independent non-executive Directors, namely, Mr. Law Yiu Sing, Mr. Wong Kwok Chuen and Mr. Wong Law Fai has been established to advise the Independent Shareholders as to whether the Share Offer is fair and reasonable and as to acceptance of the Share Offer. At the Latest Practicable date, no member of the Independent Board Committee has any direct or indirect interest in the Share Offer.

We, Zhaobangji International, have been approved and appointed by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Share Offer.

In the past two years, we have not provided any other services to the Company. As at the Latest Practicable Date, we did not have any relationship with or interest in the Group or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in this Composite Document, the annual report of the Company for the year ended 30 April 2016 (the “**2016 Annual Report**”), the interim report of the Company for the six months ended 31 October 2016 (the “**2016 Interim Report**”), the 3rd quarterly report of the Company for the nine months ended 31 January 2017 (the “**2016 Third Quarterly Report**”) and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all

material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the management of the Company in this Composite Document were reasonably made after due enquiries and careful consideration.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Offeror and its Concerted Parties, the terms of the Share Offer and the intentions of the Offeror in relation to the Company), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading. We consider that we have been provided with, and we have reviewed, the currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Share Offer, and to justify reliance on the accuracy of the information contained in this Composite Document so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, carried out any independent verification of the information provided by the Company, nor have we conducted any independent investigation into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have not considered the tax implications, if any, on the Independent Shareholders of their acceptance or non-acceptance of the Share Offer since these are particular to their own individual circumstances. Independent Shareholders should consider their own tax position with regard to the Share Offer and, if any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and advice in respect of the Share Offer, we have taken into consideration the following principal factors and reasons:

I. Background and financial information of the Group

(a) Business of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in undertaking slope works, foundation works and other general building works for improving or maintaining the stability of slopes and/or retaining walls in Hong Kong. Slope works generally refer to landslip preventive and remedial

works for improving or maintaining the stability of slopes and/or retaining walls. Foundation works are generally concerned with the construction of foundations. General building works mainly include the general construction of buildings.

(b) Financial information of the Group

Set out below is a summary of the audited financial information of the Group for the two financial years ended 30 April 2015 and 30 April 2016 as extracted from the 2016 Annual Report and the unaudited financial information of the Group (i) as at 31 October 2016 and (ii) for the nine months ended 31 January 2016 and 2017 as extracted from the 2016 Interim Report and the 2016 Third Quarterly Report, respectively.

Financial highlights of the Group

	For the year ended 30 April 2016 (Audited) HK\$'000	For the year ended 30 April 2015 (Audited) HK\$'000	For the nine months ended 31 January 2017 (Unaudited) HK\$'000	For the nine months ended 31 January 2016 (Unaudited) HK\$'000
Revenue	180,602	157,346	98,876	143,002
Profit and total comprehensive income for the year/period	7,190	11,431	4,824	7,723
		As at 30 April 2016 (Audited) HK\$'000	As at 30 April 2015 (Audited) HK\$'000	As at 31 October 2016 (Unaudited) HK\$'000
Non-current assets		417	683	31,388
Current assets		114,015	74,241	75,163
Current liabilities		35,230	31,842	22,486
Non-current liabilities		73	—	61
Net current assets		78,785	42,399	52,677
Net assets		79,129	43,082	84,004

For the year ended 30 April 2016

For the year ended 30 April 2016, the Group recorded revenue of approximately HK\$180.6 million, representing an increase of approximately 14.8% as compared to approximately HK\$157.3 million for the year ended 30 April 2015. Based on the 2016 Annual Report, we understand such growth was mainly attributable to a higher amount of revenue from the Civil Engineering

and Development Department of the Government of Hong Kong SAR (the “CEDD”)’s slope work derived based on the Group’s actual works progress under the relevant contracts as certified by CEDD/its agent and an increase in number of foundation projects undertaken by the Group during the year ended 30 April 2016.

For the year ended 30 April 2016, the Group recorded profit and total comprehensive income for the year of approximately HK\$7.2 million, representing a decrease of approximately 36.8% as compared to approximately HK\$11.4 million for the year ended 30 April 2015. We noted that such reduction in profit for the year was mainly due to (i) the recent slower approval progress of infrastructure projects by the Legislative Council of Hong Kong and the Finance Committee of the Legislative Council of Hong Kong, which resulted in certain delays in works orders under the Group’s ongoing slope works contracts; (ii) the fact that some of the relatively sizeable tender bids previously submitted by the Group turned out to be not successful; (iii) a decrease in the Group’s other income including rental income from the lease of machinery and gain on disposal of plant and equipment; and (iv) an increase in the Group’s staff cost as a result of an increase in the number of Directors and other employees.

As at 30 April 2016, the Group’s net current assets amounted to approximately HK\$78.8 million, representing an increase of approximately 85.8% as compared to the Group’s net current assets of approximately HK\$42.4 million as at 30 April 2015. The significant increase in net current assets of the Company as at 30 April 2016 as compared to the previous year was due to the increase in the cash and bank balances and pledged time deposits as a result of the net proceeds amounted to approximately HK\$31.3 million arising from the listing of the Company in November 2015. As at 30 April 2016, the net assets of the Group amounted to approximately HK\$79.1 million, representing an increase of approximately 83.5% as compared to the net assets of the Group of approximately HK\$43.1 million as at 30 April 2015. The net asset value per Share as at 30 April 2016 amounted to approximately HK\$0.055 (based on the number of issued Shares as at 30 April 2016 of 1,440,000,000 Shares).

As at 31 October 2016

As at 31 October 2016, the Group’s net current assets amounted to approximately HK\$52.7 million, representing a decrease of approximately 33.1% as compared to the Group’s net current assets of approximately HK\$78.8 million as at 30 April 2016.

As at 31 October 2016, the net assets of the Group amounted to approximately HK\$84.0 million, representing an increase of approximately 6.2% as compared to the net assets of the Group of approximately HK\$79.1 million as at 30 April 2016. The net asset value per Share as at 31 October 2016 amounted to approximately HK\$0.058 (based on the number of issued

Shares as at 31 October 2016 of 1,440,000,000 Shares), representing an increase of approximately 5.5% from the net asset value per Share of approximately HK\$0.055 as at 30 April 2016 (based on the number of issued Shares as at 30 April 2016 of 1,440,000,000 Shares).

For the nine months ended 31 January 2017

For the nine months ended 31 January 2017, the Group recorded revenue of approximately HK\$98.9 million, representing a decrease of approximately 30.8% as compared to approximately HK\$143.0 million for the nine months ended 31 January 2016. Regarding the 2016 Third Quarterly Report, the decrease in revenue is mainly due to the combined effect of the decrease in the average revenue recognised per project and a lower amount of revenue from CEDD's slope works projects for the nine months ended 31 January 2017.

For the nine months ended 31 January 2017, the Group recorded profit and total comprehensive income for the period of approximately HK\$4.8 million, representing a decrease of approximately 37.7% as compared to approximately HK\$7.7 million for the nine months ended 31 January 2016. We noted from the 2016 Third Quarterly Report that such decrease in profit for the period were mainly due to the decrease in revenue and gross profit. The decrease in gross profit is mainly attributable to the increased cost per project as a result of the tougher competitive conditions and challenging operating environment.

(c) Prospect and outlook of the Group

As disclosed in the 2016 Interim Report, the management of the Group is of the view that the business environment for the construction market will continue to remain challenging and that competition has become more intense. Upon further discussion with management of the Company, we were given to understand that the principal operating activities of the Group, being the contractor principally engaged in undertaking slope works, foundation works and other general building works in Hong Kong, were influenced by the recent slow approval progress of infrastructure projects by the Legislative Council of Hong Kong and the Finance Committee of the Legislative Council of Hong Kong. The slow approval progress could result in potential delays in public infrastructure projects and hence possible postponement, or even decrease in the availability, of related slope works projects in Hong Kong, which could indirectly influence the Group's revenue outlook. As mentioned in both 2016 Interim Report and 2016 Annual Report, the Group has also been facing tougher competitive conditions and challenging operating environment resulting from increasing costs of operation including costs of construction labours and thus subcontracting charges as well as the recent instability of the global economy.

However, as described in the 2016 Third Quarterly Report, the management of the Group believes that the Hong Kong Government's continue increase in major construction and infrastructure projects in Hong Kong will increase the demand for slope works because of the continued implementation of the "Ten Major Infrastructure Projects" and the fact that slope works are directly related to public

safety. The Hong Kong Observatory has predicted a higher than average rainfall for the coming year, which increases the risk of landslides and the Hong Kong Government forecasted a higher financial provision for conducting major mitigation measures to reduce the landslide risk at slopes. The management indicated that, based on the above, they are cautiously optimistic about the slope work industry in Hong Kong.

Having considered management's view that despite of the increase in demand for slope works because of the "Ten Major Infrastructure Projects" and the higher than average rainfall for the coming year as predicted by the Hong Kong Observatory, there are uncertainties faced by the Company such as (i) the slowdown in the approval progress of infrastructure projects by the Legislative Council of Hong Kong and the Finance Committee of the Legislative Council of Hong Kong which resulted in a smaller number of funding proposals for public work projects to be passed; (ii) the challenging operating environment resulting from the increased costs of operation; (iii) the recent instability of the global economy and (iv) the Group's deteriorating financial results. We consider that the Company's prospects and outlook would be subject to uncertainties and challenges from competitors in the future.

II. Specific undertakings under the SPA

Specific undertakings

Provided that (i) the Company will not exercise its power to remove Mr. Yu and/or Ms. Wong from the directorship of the Operating Subsidiaries and (ii) Mr. Yu and Ms. Wong, collectively, have control over the board of directors of the Operating Subsidiaries (such proviso is not applicable where Mr. Yu or Ms. Wong tenders his/her resignation voluntarily, or where they have lost control over the board of directors of the Operating Subsidiaries due to any other reasons not attributable to the Offeror and/or the Company), each of Warrantors jointly and severally, unconditionally and irrevocably, undertake to the Offeror, amongst other things, that:

- (a) consolidated net asset value (the "NAV") of the Operating Subsidiaries shall not be less than HK\$20,000,000 as at the date of the SPA;
- (b) the NAV shall be:

The relevant date	Audited NAV
(i) 30 April 2018	Not less than HK\$20,000,000
(ii) 30 April 2019	Not less than HK\$20,000,000

- (c) In the event that the NAV is less than HK\$20,000,000 on the relevant date(s) as mentioned in (a), (b)(i) or (b)(ii) above, National Honour shall pay to the Offeror such amount in cash as calculated pursuant to the formula below on 30 June 2017 (for non-fulfilment of (a) above) and 15 August of the relevant year (for non-fulfilment of (b)(i) or (b)(ii) above):

$$A = B - C$$

Where:

- A: the amount to be paid by National Honour to the Offeror for non-fulfilment of the NAV guarantee as mentioned in (a), (b)(i) or (b)(ii) above;
- B: the guaranteed amount of the NAV as mentioned in (a), (b)(i) or (b)(ii) above; if the Warrantors have made the compensation pursuant to this section for the non-fulfilment of (a) or (b)(i) above, an amount equal to such compensation shall be deducted from the guaranteed amount of the NAV for the next relevant date;
- C: the NAV as at the date of the SPA (for (a)), 30 April 2018 (for (b)(i)) or 30 April 2019 (for (b)(ii)).

The aforementioned guarantee mechanism is based on the NAV of the Operating Subsidiaries instead of the NAV of the Group, because the Company is merely a holding company of the Group and has no substantial operation other than the operations under the Operating Subsidiaries. As at 31 January 2017, the unaudited net asset value of the Group amounted to approximately HK\$83.9 million while the unaudited net asset value of the Operating Subsidiaries amounted to approximately HK\$50.7 million.

The NAV will be determined based on the audited accounts of the Operating Subsidiaries, which will be available after the auditors complete the annual audit of the Operating Subsidiaries. For the avoidance of doubt, the parties to the SPA confirm that the NAV on the date of the SPA is referred to the NAV of the Operating Subsidiaries shown in the audited accounts of the Operating Subsidiaries for the year ended 30 April 2017.

As at the Latest Practicable Date, the NAV on the date of the SPA has not been determined.

The Offeror and Mr. Zhou confirm that there are no arrangements of any kind offered to National Honour, Mr. Yu or Ms. Wong for their remaining as directors of the Operating Subsidiaries. Mr. Yu and Ms. Wong will continue to be employed under the existing service contracts entered into on 15 October 2015 with the Company. There is no other understanding, arrangement with Mr. Yu and Ms. Wong relating to their employment as directors of the Operating Subsidiaries.

Given that (i) the specific undertakings under the SPA are only applied to National Honour but could not be extended to all other Independent Shareholders; and (ii) the non-fulfilment of specific undertakings might only bring a deduction in the consideration under the SPA which equivalent to a downward effect on the selling price per Acquired Share, there will be no effect on the Offer Price.

III. Information of the Offeror and the Offeror's intention in respect of the Group

(a) Information of the Offeror

As disclosed in the "Letter from Emperor Capital" in this Composite Document, the Offeror was incorporated in Hong Kong with limited liability. The Offeror is the beneficial owner of 1,080,000,000 Shares as at the date of the Joint Announcement. As at the Latest Practicable Date, the Offeror is wholly-owned by Century Investment Holdings Limited, a company incorporated in the Cayman Islands with limited liability. The principal business of Century Investment Holdings Limited is investment holding and its sole shareholder is Mr. Zhou. Therefore, Mr. Zhou is the ultimate beneficial owner of the Offeror.

Mr. Zhou, aged 35, has been working in the financial investment industry and has invested in or managed various PRC companies involved in various fields, including equity investment, assets management, films and entertainment and cultural education. In 2014, Mr. Zhou founded Zhejiang United Small-and-medium-sized Enterprises Holdings Group Company Limited* (浙江聯合中小企業控股集團有限公司), which is principally engaged in provision of consultation services for company management (e.g. providing the financing plans for the small-and-medium sized enterprises and advising on the transaction plan/structure for the mergers and acquisitions of the companies), and has been acting as the chairman of the board of directors till present.

Mr. Zhou was awarded Asia Financial Brands Top 10 Outstanding Figures (亞洲金融品牌十大傑出人物) in 2016, China Outstanding Enterprise Manager* (中國優秀誠信企業家) in 2014, 2016 China Yangtze River Delta Top 10 New Youth Businessmen* (2016年度中國長三角十大新銳青商), 2015 Zheshang Figures of Creativity* (2015浙商創新人物), 2015 Top 10 Leaders of Zhejiang Financial Investment* (2015年度浙江金融投資十大領軍人物) and the 13th session of Hangzhou Top 10 Outstanding Young Persons* (第十三屆杭州十大傑出青年).

Mr. Zhou is the vice-president of the Zhejiang International Finance Society (浙江省國際金融學會副會長), the president of the Zheshang National Council Presidium* (浙商全國理事會主席團主席), the committee member of the Hangzhou City Committee of the China Minzhu Jianguo Association* (中國民主建國會杭州市委員會委員) and the vice-president of the Entrepreneur Association of the Hangzhou City Committee of the China Minzhu Jianguo Association* (中國民主建國會杭州市委員會企業家聯誼會副會長).

Immediately prior to the entering into the SPA, the Offeror and its Concerted Parties did not hold any securities of the Company and were third parties independent of the Company and its connected persons.

(b) The Offeror's intention in respect of the Group

As disclosed in the "Letter from Emperor Capital" in this Composite Document, it is the Offeror's intention to acquire a majority interest in the Company pursuant to the SPA and the Share Offer. The intention of the Offeror is that the Company's existing principal activities will be maintained and the Offeror will assist the Company in reviewing its business and operations and seek for new opportunities to enhance and strengthen the business of the Group.

The Offeror has no intention to introduce major changes to the business of the Group, including any redeployment of fixed assets other than those in its ordinary course of business. Save for the change(s) to the composition of the Board as mentioned below, the Offeror has no plan to terminate the employment of any other employees or other personnel of the Group. However, if the Offeror deems necessary or appropriate to the Group's businesses and operation to increase the value of the Group, there is a possibility that the Offeror may change its intention or plan in the future, subject to full compliance with the relevant rules and regulations. As at the Latest Practicable Date, there is no understanding, discussion, arrangement or agreement in regard of the intention or plan of the Offeror in the future.

(c) Proposed change to the Board composition of the Group

As disclosed in the "Letter from Emperor Capital" in this Composite Document, the Board is currently made up of six directors, namely Mr. Yu Shek Man Ringo and Ms. Wong So Wah as executive Directors, Mr. Cheung Kin Keung Martin as non-executive Director and Mr. Law Yiu Sing, Mr. Wong Kwok Chuen and Mr. Wong Law Fai as independent non-executive Directors.

The Offeror intends to nominate new Directors who will hold office in the Company with effect from the earliest time permitted under the Takeovers Code or such later time as the Offeror thinks fit. As at the Latest Practicable Date, the Group has not identified any potential new Directors to be nominated to the Company.

Having considered (i) the Offeror does not intend to introduce any major changes to the existing contractor businesses which include undertaking slope works, foundation works and other general building works for improving or maintaining the stability of slopes and/or retaining walls in Hong Kong; (ii) the Offeror intends to nominate new Directors to the Board but has not yet identified any potential candidates to act as the new Directors; and the experience of the Offeror to manage the Group's existing business is limited. We consider that the business plans and strategies of the Group's future business development to be directed by the new Board are uncertain.

(d) Public float and maintaining the listing status of the Group

As disclosed in the “Letter from Emperor Capital” in this Composite Document, the Offeror intends for the Company to remain listed on the Stock Exchange after the close of the Share Offer.

If the public float of the Company falls below 25% following the close of the Share Offer, the Offeror and the Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Share Offer to ensure that a sufficient public float exists for the Shares, such as the engagement of a placing agent to place such number of Shares to other independent third parties not connected with the Company or any of its connected persons and not parties acting in concert with the Offeror. The Company and the Offeror will issue a separate announcement as and when necessary regarding the decision of any of such steps if the circumstances warrant.

The Stock Exchange has stated that if, upon closing of the Share Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

IV. Principal terms of the Share Offer

Emperor Capital, for and on behalf of the Offeror, is making an unconditional mandatory cash offer to acquire all the issued Shares of the Company (other than those already owned or agreed to be acquired by the Offeror and its Concerted Parties) on the terms set out in this Composite Document in accordance with the Takeovers Code on the following basis:

The Share Offer:

For each Offer Share HK\$0.25 in cash

The Offer Price is the same as the price per Share paid by the Offeror under the SPA which was arrived at after arm’s length negotiation between the Offeror and National Honour.

The Share Offer is extended to all Shareholders other than the Offeror and its Concerted Parties in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer shall be fully paid and acquired free from all liens, claims, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached thereto as at the date on which the Share Offer is made or subsequently becomes attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of this Composite Document.

The Offer Price of HK\$0.25 for each Share represents:

- (i) a discount of approximately 36.71% to the closing price of HK\$0.395 per Share quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 7.41% to the last trading price of HK\$0.27 per Share as quoted on the Stock Exchange immediately before trading in the Shares was halted on 5 May 2017 and being the Last Trading Day;
- (iii) a discount of approximately 6.72% to the average closing price of HK\$0.268 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 5.37% to the average closing price of HK\$0.2642 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 12.87% to the average closing price of HK\$0.2215 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days up to and including the Last Trading Day; and
- (vi) a premium of approximately 354.55% to the audited consolidated net assets value attributable to the Shareholders of approximately HK\$0.055 per Share as at 30 April 2016, the date to which the latest audited consolidated financial results of the Company were made up.

(a) Historical Share price performance

To assess the fairness and reasonableness of the Offer Price, we have analysed the Offer Price regarding the historical Share price performance.

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 11 May 2016 (being the first trading day of the 12-month period ending on the date of the Joint Announcement) up to and including the Latest Practicable Date (the “**Review Period**”). We consider the Review Period which covers a full year prior to the date of the Joint Announcement represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Offer Price.

Share price performance during the Review Period



Source: the website of the Stock Exchange

As shown above, the closing prices of the Shares during the Review Period were trading within a range from the lowest closing price at HK\$0.105 per Share to the highest closing price of HK\$0.45 per Share with an average closing price per Share of approximately HK\$0.172. The Offer Price of HK\$0.25 represents a premium of approximately 138.1% over the lowest closing price, a discount of approximately 44.4% to the highest closing price and a premium of approximately 45.19% over the average closing price during the Review Period, respectively.

As shown above, the closing price of the Shares ranged from HK\$0.105 per Share on 3 August 2016 to HK\$0.295 on 26 April 2017 during the period from 11 May 2016 to 11 May 2017 (both dates inclusive, the “**Pre-Announcement Period**”), being the last trading date prior to the release of the Joint Announcement, with an average of HK\$0.161 per Share. The Offer Price of HK\$0.25 represents a premium of approximately 55.5% over the average closing price during the Pre-Announcement Period.

Trade in the Shares was suspended, at the request of the management of the Company, from 6 May 2017 to 11 May 2017 (both days inclusive), pending the release of an announcement regarding inside information pursuant to the Takeovers Code. Following the release of the Joint Announcement and the resumption of trading in the Share on 12 May 2017, the closing price of the Shares maintained at relatively high level at above HK\$0.45 during the period from 12 May 2017 up to the Latest Practicable Date (both dates inclusive, the “**Post Announcement Period**”), the closing price of the Shares ranged from HK\$0.365 on 12 May 2017 and 15 May 2017 to HK\$0.45 recorded on 18 May 2017, with an average of HK\$0.405 per Share. The Offer Price of HK\$0.25 represents a discount of approximately 38.3% to the average price.

During the Review Period, the closing prices of the Shares were generally on an increasing trend and the closing prices of the Shares were usually below the Offer Price, as noted from the start of the Review Period to 24 April 2017 representing over 91.1% of the trading days during the Review Period. It is noted that the closing price of the Shares was on an upward trend and fluctuated between HK\$0.105 on 3 August 2016 and reached its peak at HK\$0.45 on 18 May 2017. The closing price of the Shares then decreased slightly to HK\$0.395 as at the Latest Practicable Date. It is noted that the price-to-earnings ratio (the “**PER**”) of the Company is approximately 79.11 times calculated based on its market capitalisation as at the Latest Practicable Date divided by profit for the year as disclosed in the 2016 Annual Report. Based on our review on the latest published information of the Company during the Review Period, we are not aware of any significant information in relation to the positive change in the Company’s business, operating performance and/or financial position during the Review Period, which could be reasonably accounted for the price improvement and current high market price. We have enquired with the Management and were advised that the Company is not aware of any reason for the price movement. Therefore, we are unable to comment on whether the trend is sustainable as the market price of the Shares may be determined by factors which may not be directly related to the financial or business performance of the Company. Such factors include, among others, investor sentiment, market conditions, the state of the industry in which the Company operates in and the state of the economy and political environment in the country which the company operates in. These factors are difficult to gauge and any change in these factors may affect the market price of the Shares. Therefore, we consider that such fluctuation of the Share prices after the date of the Joint Announcement which represents a premium to the Offer Price was primarily the result of market speculation. The Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period. We strongly suggest that the Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Record. Considering that the Offer Price represents a premium of approximately 45.2% over the average closing price of the Shares during the Review Period, we consider that Offer Price is fair and reasonable

(b) *Historical trading volume of the Shares*

The following table sets out the historical monthly trading volume of the Shares and the percentage of the number of Shares traded compared to the total number of the Shares in issue during the Review Period.

Month/period	Total trading volume (No. of Shares)	No. of trading days	Average daily trading volume (No. of Shares) (Note 1)	Percentage of the average daily trading volume to the total number of Shares in issue (%) (Note 2)
2016				
11 May to 31 May	50,400,000	15	3,360,000	0.23
June	20,530,000	21	977,619	0.07
July	18,570,000	20	928,500	0.06
August	32,720,000	22	1,487,273	0.10
September	146,400,000	21	6,971,429	0.48
October	33,269,900	19	1,751,047	0.12
November	18,170,000	22	825,909	0.06
December	13,620,000	20	681,000	0.05
2017				
January	21,620,000	19	1,137,895	0.08
February	204,270,000	20	10,213,500	0.71
March	74,030,000	23	3,218,696	0.22
April	309,645,000	17	18,214,412	1.26
May to Latest Practicable Date	470,995,000	19	24,789,211	1.72

Source: the website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the total number of trading days during the respective month/period, excluding any trading days on which trading the Shares on the Stock Exchange was suspended for the whole trading day.
2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 1,440,000,000).

As illustrated in the table above, the average daily trading volume of the respective month/period during the Review Period ranged from approximately 681,000 Shares in December 2016 to approximately 24,789,211 Shares in May 2017, representing approximately 0.05% to approximately 1.72% of the total number of the Share in issue as at the Latest Practicable Date.

We noted that the average daily trading volumes of the Shares during the periods in February 2017, April 2017 and May 2017 to Latest Practicable Date as a percentage of the total number of Shares in issue increased significantly. There is also an increasing trend for the average daily trading volume of Shares during the periods in February 2017, April 2017 and May 2017 to Latest Practicable Date. We have reviewed the announcements published by the Company on the Stock Exchange. On 6 February 2017, the Company announced that it had been approached by an independent third party (the “**Potential Purchaser**”) in respect of a possible disposal of ordinary shares of HK\$0.01 each of the Company by National Honour which may result in a change in control of the Company (the “**6 February 2017 Announcement**”). On 6 April 2017, the Company announced that National Honour and the Potential Purchaser had ceased discussion in respect of the possible disposal (the “**6 April 2017 Announcement**”). Save for the publication of the 6 February 2017 Announcement, 6 April 2017 Announcement and the Joint Announcement, we are not aware of any other public information relating to the trading volume movement. We have also enquired with the management of the Company and the Directors for the possible reasons for the trading volume movement during the abovementioned periods and were advised that, save for the publication of the 6 February 2017 Announcement, 6 April 2017 Announcement and the Joint Announcement, the Company was not aware of any other matters which might have impact on the trading volume.

We consider that such relatively high average daily trading volume of the Shares in February 2017 and April 2017 is most likely due to the market reaction towards the 6 February 2017 Announcement and 6 April 2017 Announcement. The high average daily trading volume of the Shares in May 2017 to the Latest Practicable Date is most likely due to the market reaction towards the Joint Announcement. Shareholders should note that there is no guarantee that such increase in daily trading volume may occur during and/or after the Offer Period. It is also uncertain whether such trading momentum could be sustained in light that the average daily trading volume of the Shares was generally thin for most of the time during the Review Period i.e. the average daily trading volume during the Review Period was approximately 5.7 million Shares, representing approximately 0.40% of the total number of Shares in issues as at the Latest Practicable Date.

As the traded volume of the Shares had been relatively thin, we believe that the share price is vulnerable and could be easily distorted by a minimal number of transactions. We again consider that the share price may not be a good reference/indicator to the Company’s underlying value due to the illiquidity of the Shares. Independent Shareholders should be mindful as to whether there will be sufficient liquidity in the Shares for those who wish to realise part or all of their investment in the Company at the prevailing market price of the Shares. Shareholders may find it

difficult to dispose of large number of Shares in the open market without exerting downward pressure on the market price of the Shares. Therefore, we consider that the Share Offer provides an assured exit to the Independent Shareholders, particularly for those who hold a large volume of the Shares, to realise their investment in the Shares by the Share Offer rather than sell on the open market.

(c) Comparable analysis

To further assess the fairness and reasonableness of the Offer Price, we have conducted a comparable analysis through identifying companies which are primarily engaged in similar business activities as the Company and are listed on the Stock Exchange (the “**Comparables**”). We have considered three commonly adopted approaches in evaluation of a company, namely the PER, dividend yield and price-to-book ratio (the “**PBR**”), which are commonly adopted trading multiple analyses. However, the Group did not declare any dividend to the Shareholders for the two years ended 30 April 2015 and 2016, we consider that the dividend yield approaches are not applicable for assessing the value of the Group and thus the PBR and PER would be the most appropriate and relevant approach.

It should, nevertheless, be noted that all the subject companies involved in the comparable analysis may have different market capitalisation, profitability, and financial positioning as compared with those of the Company. The analysis is meant to be used as a general reference for similar types of companies in Hong Kong, and we consider the Comparables’ PERs and PBRs to be the most appropriate basis to assess the fairness of the PERs and PBRs of the Company and in turn, the proposed Offer price.

Based on the Offer Price of HK\$0.25 per Offer Share and the total number of issued Shares of 1,440,000,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$360 million. The PBR of the Company implied by the Offer Price is approximately 4.29 times (the “**Implied PBR**”) based on the equity attributable to Shareholders of the Company of approximately HK\$84.0 million as at 31 October 2016. The PER of the Company implied by the Offer price is approximately 50.07 times (the “**Implied PER**”) based on the net profit attributable to Shareholders of the Company of approximately HK\$7.2 million for the year ended 30 April 2016.

In identifying the Comparables, we aimed to find companies which are most relevant to the Company and the selection criteria include the following: (i) companies that are principally engaged in undertaking both slope works and foundation works only; (ii) companies that are listed on the Stock Exchange; and (iii) companies that are profit generating in the most recent financial year. However, due to the unique business mix of the Group, we have not been able to identified Comparables with the exact business mix.

We have therefore revised the selection criteria for those comparable companies which are (i) companies that are engaged in the provision of construction works which undertakes either or both slope works and foundation works with revenue

deriving from Hong Kong as at the latest financial year; (ii) companies that are listed on the Stock Exchange; and (iii) companies that are profit generating in the most recent financial year. Based on these criteria, we have identified an exhaustive list of a total of 5 Comparables listed on the Stock Exchange.

Given the unique business mix of the Group and based on our review of information of companies listed on the Stock Exchange which engaged in similar line of businesses of the Group, we consider that selecting comparable companies based on market capitalisation would be too limited in forming a fair list to assess the fairness and reasonableness of the terms of the Share Offer.

Shareholders should note that the business, scale of operation, trading prospect, target market business mix, cost structure and capital structure of the Company are not the same as those of the Comparables and we have not conducted in-depth investigation into business and operations of the Comparables save for the aforesaid selection criteria. While the Comparables may not have identical business mix as the Group to constitute direct comparables, we consider that, based on the selection criteria we have adopted, they represent a fair and representative selection of companies that can be useful comparables to the Company for the purpose of this analysis on the grounds that (i) the Comparables and the Group are principally engaged in the provision of construction work such as slope works which includes landslip preventive work and/or foundation service work; (ii) the Comparables and the Group are in general affected by similar macroeconomic factors including but not limited to, the economy in Hong Kong, the outlook of construction industry in Hong Kong, and government policies/regulations on construction industry or construction in Hong Kong; and (iii) similar to the Group, their sources of revenue are solely generated from business similar to that of the Group in Hong Kong. Details of our analysis are as follows.

Company name	Stock code	Principal activities	Market capitalisation (HK\$'000) (Note 1)	Closing price (HK\$)	NAV (HK\$'000) (Note 2)	Net profit (HK\$'000) (Note 3)	PBR (times)	PER (times)
Chinney Kin Wing Holdings Limited	1556	Engaged in foundation construction, and drilling and site investigation works for both public and private sectors in Hong Kong.	645,000	0.43	402,714	102,028	1.60	6.32
K. H. Group Holdings Limited	1557	Engaged in foundation service works and ancillary.	536,000	1.34	164,703	40,303	3.25	13.30
Kwan On Holdings Limited	1559	Engaged in the provision of construction and maintenance works on civil engineering contracts in respect of buildings, waterworks, site formation, road works and drainage and slope upgrading in Hong Kong.	1,843,200	1.92	116,193	27,779	15.86	66.35

Company name	Stock code	Principal activities	Market capitalisation (HK\$'000) (Note 1)	Closing price (HK\$)	NAV (HK\$'000) (Note 2)	Net profit (HK\$'000) (Note 3)	PBR (times)	PER (times)
Yee Hop Holdings Limited	1662	Engaged in the provision of foundation and other civil works and tunneling works in Hong Kong.	695,000	1.39	249,108	94,266	2.79	7.37
GME Group Holdings Limited	8188	Engaged in the provision of tunnel construction services and utility construction services to the public sector and slope works and structural works for the private sector.	310,000	0.62	39,956	17,708	7.76	17.51
						Maximum	15.86	66.35
						Minimum	1.60	6.32
						Average	6.25	22.17
Company name	Stock code	Principal activities	Market capitalisation (HK\$'000) (Note 4)	Offer price (HK\$)	NAV (HK\$'000) (Note 2)	Net profit (HK\$'000) (Note 3)	PBR (times)	PER (times)
The Company	8366	Engaged in undertaking slope works, foundation works and other general building works in Hong Kong.	360,000	0.25	84,004	7,190	4.29	50.07

Source: the website of the Stock Exchange

Notes:

1. The market capitalisation is based on the closing price on the Latest Practicable Date.
2. The net asset value was extracted from the latest published results of the respective companies (i.e. interim or annual reports).
3. The net profit was extracted from the annual reports of the respective companies.
4. The market capitalisation is based on the Offer Price.

Based on the above, the average of the PER of the Comparables as at the Latest Practicable Date were approximately 22.17 times, where the PERs of the Comparables range from approximately 6.32 times to 66.35 times. We noted that the Group's net profit for the year ended 30 April 2016 is approximately 50.07 times, which is within the range of and toward the high end of the PERs of the Comparables. Therefore, we are of the view that the Offer Price is fair and reasonable from a PER valuation standpoint.

In evaluating the fairness and reasonableness of the Offer price, we also referred to the PBR of the Company and its peers. As set out in the table above, the PBRs of the Comparables range from approximately 1.60 times to 15.86 times. In accordance to 2016 Interim Report, the NAV of the Group as at approximately HK\$84.0 million. Based on 1,440,000,000 Shares in issue as at 31 October 2016 and the abovementioned net asset value, the NAV per Share as at 31 October 2016 was approximately HK\$0.0583 and the Offer price of HK\$0.25 per Share, the Company's PBR would be approximately 4.29 times, which is within the range of the PBRs of the Comparables. On this basis, we consider that the Offer price is fair and reasonable from a NAV per Share standpoint.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the specific undertakings under the SPA has no effect on the Offer Price;
- (ii) the Offer Price represents a premium of approximately 45.2% over the average closing price during the Review Period, which represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Offer Price, despite the Share Offer Price represents a discount to the recent Share prices which we consider not relevant for analysis;
- (iii) the Offer Price is above the closing price of the Shares for more than approximately 91.1% of the trading days during the Review Period;
- (iv) the uncertainties in the future prospect of the Group;
- (v) the Implied PER deduced from the Offer price is within the range of and toward the high end of Comparables' PER;
- (vi) the Implied PBR deduced from the Offer price is within the range of the Comparables' PBR;
- (vii) the traded volume of the Shares had been relatively thin and the Shareholders may find it difficult to dispose of large number of Shares in the open market without exerting downward pressure on the market price of the Shares. Therefore, we consider that the Share Offer provides an assured exit to Shareholders to realise their investment in the Shares without the possible negative impact above; and
- (viii) the Company does not have a dividend policy for future dividend payments to the Shareholders. Shareholders who seek for dividend return for their investment may consider accepting the Share Offer and invest the proceeds receivable therefrom in other securities with better dividend yield than the Shares.

We consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer.

The Independent Shareholders who choose not to accept the Share Offer and sell part or all of their share in the open market to realise a price in excess of the Offer Price should monitor the market price of the Shares. If the market price of the Shares remains higher than the Share Offer Price during the Offer Period, the Independent Shareholders should consider any costs in respects of such market sale (i.e. rapid and significant changes in prices and liquidity, as well as the uncertainty with regards to current prices or levels of liquidity that can be maintained). We wish to highlight the fact that the Share Offer enables Independent Shareholders to sell their Shares at the Offer Price with certainty, while there is no certainty given to them to sell a certain number of Shares at any given time in the market with any given price.

The Independent Shareholders should also be aware that, if the number of Shares held by the public, as defined in the GEM Listing Rules, comprises less than 25% of the total issued Shares at the close of the Share Offer, trading in the Shares may be suspended. Should this happen, the Independent Shareholders who choose not to accept the Share Offer will not be able to sell their Shares on the Stock Exchange until trading in the Shares resumes.

The Independent Shareholders are strongly recommended to read carefully the procedures for accepting the Share Offer as detailed in this Composite Document, the appendices to this Composite Document and the accompanying Forms of Acceptance, if they wish to accept the Share Offer.

Yours faithfully,
For and on behalf of
Zhaobangji International Capital Limited


Fabian SHIN
Chief Executive Officer

Mr. Fabian Shin is a licensed person registered with the Securities and Futures Commission and a responsible officer of Zhaobangji International Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 20 years of experience in the corporate finance profession.